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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC 02669-85
23 May 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer for Economics

SUBJECT: NSC Meeting on NSSD 2-85: "Economic Development
for Central America"

1. In January 1985 the President commissioned a study to provide an analytical framework for building US policy toward economic development in Central America. This study was an interagency effort led by Bill Martin, Special Assistant to the President on the NSC Staff. The summary of the final report is attached as Tab B. The full report is attached as Tab C.

2. The CIA contribution to this effort, which is summarized in Tab D, consisted of an economic review of conditions in the region over recent years as well as a projection of the potential for economic growth, given varying assumptions in coming years. In addition, the CIA contributed a country-by-country analysis, which is summarized and updated in Tab E.

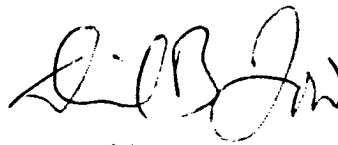
3. Bill Martin, who will conduct the briefing for Mr. McFarlane, is seeking to renew the momentum for one of the President's top priorities which has gotten bogged down on the Hill. We are in the second year of a five-year program, spearheaded by AID, to mobilize US resources in a fashion consistent with that recommended by the Kissinger Commission Report. While the Kissinger Commission recommended US flows amounting to \$8.4 billion over the five years, it is likely that the amounts will fall well short. AID is presently having a lot of trouble obtaining its gross levels of assistance as requested, and might consider itself lucky to get a continuing resolution at this point. The Senate has passed a bill which contains money for Central America, but House action needs a shot in the arm.

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4. Attached as Tab A are talking points. They seek to make two points. First, while this study is an excellent format for constructive examination of what is needed for Central America to realize its economic potential, I think the security situation needs to be emphasized. It is not that the report doesn't recognize the impact that instability has had, but rather that we must not allow ourselves to be unduly optimistic about the ability of these countries to prosper in the face of continuing instability. Secondly, I would propose that you take advantage of this forum and opportunity to touch on the need for US aid to reach the private sector.



David B. Low

Attachments:

- Tab A: Talking Points
- B: Summary Report
- C: Response to NSSD 2-85
- D: Summary of CIA Contribution
- E: One-Page Summary on Each Country

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NIO/Econ(David Low):rr



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TAB A

23 May 1985

TALKING POINTS

The Impact of Instability

- This report is an excellent summary of current economic conditions in Central America and helps us to think constructively about what is needed for Central America to realize its economic potential.
- While the report recognizes that the security situation has had a major impact on economic conditions, I want to caution us not to be overly optimistic about the prospects for economic growth while the Sandinistas and others are bent on regional subversion.
- Instability saps the focus and resources of the region's governments and makes the distribution and impact of aid necessarily less efficient.
- It will be difficult for US aid to be targeted or conditional in such a way that it can yield policy reform and other concrete results if it has to overcome continual instability.
- Indeed, if the cutoff in Contra funding ends up allowing further consolidation of the Sandinista position, even the "moderate growth" middle line in the graph (in the Report Summary) over the longer haul could prove extremely difficult to achieve.
- If democracy and lasting economic growth are to be secured in the region, Managua must be turned away from its current path.

Stimulating the Private Sector

- I would also like to stress the need for US aid and financial support to reach the private sector:
 - under the current circumstances, a "business as usual" approach to aid flows is not enough.
 - we need to take a look at how the dollars get to the place they will do the most good--the private sector (are the mechanisms adequate?)
 - A more innovative approach to involving the private sector will be consistent with the President's often stated views and will stimulate Congressional interest.

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